

MEETING OF THE SAN DIEGO METROPOLITAN TRANSIT SYSTEM
BUDGET DEVELOPMENT COMMITTEE
1255 Imperial Avenue, Suite 1000
San Diego, CA 92101

10/15/2021

MINUTES

1. ROLL CALL

Ms. Moreno called the Budget Development Committee (BDC) meeting to order at 2:03pm. A roll call sheet listing BDC member attendance is attached.

2. APPROVAL OF MINUTES

Ms. Salas moved to approve the minutes of the April 26, 2021 San Diego Metropolitan Transit System (MTS) BDC meeting. Mr. Sandke seconded the motion, and the vote was 5 to 0 in favor.

3. PUBLIC COMMENTS

Bertha Rodriguez from Climate Action Campaign – commented on the (FY) 2022 Budget Update/Financial Forecasts agenda item. Ms. Rodriguez thanked the committee for the FY2022 Budget update. She made recommendations for the FY2023 budget, mentioning the need for a comprehensive parking policy for future transit-oriented development projects, mentioning the best way to increase ridership is to increase housing at transit stops.

4. Fiscal Year (FY) 2022 Budget Update/Financial Forecasts (Mike Thompson)

Sharon Cooney, Chief Executive Officer (CEO), gave an overview of the Operating Budget, mentioning the top priority is to grow ridership and to keep service on the street. Ms. Cooney also mentioned that there is still a structural deficit, which is being balanced by with the federal stimulus funding. She went over some of the uncertainties, such as when will ridership recover and what impact will PRONTO have on fare collection. Ms. Cooney mentioned one of the biggest difficulties is hiring in today's market, as some bus runs have not been able to be filled leaving some riders stranded for several minutes and in some cases 30 – 45 minutes. She went over the Capital Improvement Program budget, mentioning state of good repair at the top of the list along with Zero Emission Bus (ZEB). She explained that the most pressing need at the moment is additional funding for Division 6, which is the Bus Maintenance Facility, which will support the ZEB acceleration program.

Mike Thompson, Director of Financial Planning and Analysis presented a PowerPoint explaining the FY 2022 Operating Budget Overview.

Mr. Thompson went over the revenue assumptions for Sales Tax Revenues, which includes the TransNet formula funding, and mentioned the strong results in sales tax

even after the mid-year FY 2021 budget was increased. Mr. Thompson mentioned the actuals came in strong for the last quarter and the actual cash receipts for FY 2021 came in higher than the initial Pre-COVID forecast. Mr. Thompson went over the Transportation Development Act (TDA) funding stating it's a similar picture as with TransNet, where the budget was brought down initially, was brought back up at mid-year, and the actuals will end up higher than the initial Pre-COVID forecast.

Mr. Thompson went over the revenue assumptions for State Transit Assistance (STA) revenue. He mentioned this revenue stream is projected by the State Controller's office, with the projection for FY 2022 from last January was \$23.1M, putting \$11M in the Operating Budget and the remainder in Capital. The updated forecast from STA came in August with an increase of \$5.1M, total of \$28.2M.

He went over the passenger levels, mentioning that over the last 6 months in February, ridership averaged 42% of baseline. The 42% baseline was used in the budget and also layered on ridership from Mid-Coast ridership and students returning to school in the Fall. Mr. Thompson mentioned that ridership numbers continued to increase in June when businesses began to reopen, ridership increased from 48% to 53%, projecting 52 million passengers for the FY. He went over Passenger Revenue, mentioning the baseline target revenue is about \$100M and \$49.5M was budgeted for last FY. The updated forecast is increasing by \$7.9M to \$57.4M. This increase has the updated ridership projection, Mid-Coast ridership and the PRONTO ordinance change. Mr. Thompson reviewed the Revenue Summary for FY 2022. Total Operating Revenue is increasing by \$9.7M, 13.6%, total Subsidy Revenue is increasing by \$8.8M, 4.3%, and total Revenue is increasing by \$19.3M, 7.0%.

Mr. Thompson went over the Expense Assumptions. Personnel Expenses are expected to be decrease by \$3.7M. This includes \$1.8M savings in wages, due to decreased bus and mechanic hours; Fringe Benefits are favorable by \$1.2M due to healthcare premiums being lower in Calendar Year (CY) 2022 with a savings of \$1.1M and Unemployment Insurance being favorable by \$300K; and Cost recovery is expected to be \$648K, due to changes in Mid-Coast reimbursement assumptions. Outside Services are projected to decrease by \$6.3M, primarily due to \$5.8M decrease in Purchased Transportation, as contractors are not running as much standby hours and lower service levels. Other Outside Services are projected to decrease \$308K. Materials and Supplies are estimated to increase by \$515K. Energy is projected to increase by \$2.7M, primarily due to natural gas prices, which affects the electricity costs as well. Mr. Thompson reviewed the FY 2022 Expense Summary, and total expenses are decreasing by \$6.8M, -1.9%.

He reviewed the Consolidated Revenues less Expenses. Total Revenues are increasing by \$18.5M, 6.7%, Total Expenses are decreasing by \$6.8M, -1.9%, and in total the Net Operating Deficit is improving by \$25.3M, 31.5%. Mr. Thompson did mention that even with the improvements, there still is a structural deficit of \$55M. He mentioned that subsidy revenues are close to pre-pandemic levels and so are expenses, mentioning the only thing lagging is passenger revenue. The deficit can be balanced with stimulus funding by using another \$54M on top of what has been used in FY 2020 & FY 2021.

Mr. Thompson went over the 5-year projection, stating that around FY 2025 we could be at the targeted Pre-COVID passenger revenue level. He mentioned that a deficit is still expected throughout the 5-year period, and can be balanced with stimulus funding.

Mr. Thompson went over the FY2022 Capital Improvement Project (CIP) Five Year Summary. State of Good Repair projects are projected at \$580M, and Major Initiatives at \$259M, resulting in a total of \$840M over the 5-year period with a projected revenue of \$510M leaving a deficit of \$330M. Mr. Thompson went over the takeaways for FY2022 CIP, mentioning the urgency of Division 6 and the need of additional funding to purchase land for Division 6.

Action Taken

No Action was taken. Information item only.

5. Fiscal Year (FY) 2021 Final Budget Comparison (Gordon Meyer)

Gordon Meyer, Operating Budget Supervisor, gave a PowerPoint presentation of the Final Budget Comparison for FY 2021. Mr. Meyer went over the Federal Transit Administration (FTA) and Coronavirus Aid, Relief and Economic Security (CARES) Act Funding. He mentioned the actual budget results are being compared to the amended FY 2021 budget. The amended budget included a structural deficit of \$74.1M, which was projected to be covered by CARES Act funds.

Mr. Meyer went over the FY 2021 Operating Revenues. He mentioned fare revenue was favorable by \$1.3M, 2.8%, and passenger revenue was unfavorable to the prior year by \$31.6M, -39.8%. Other operating revenue was favorable by \$1.4M, 7.8%. This is the result from favorable auction proceeds, lease income and For Hire Vehicle (FHV) Administration permit revenue. Overall operating revenue was favorable by \$2.7M, 4.2%.

Mr. Meyer gave an overview of the Operating Expenses for the end of FY 2021. Personnel expenses were favorable by \$4.8M, 3.1%, which was driven by bus operator wages and one-time credits from retiree health and welfare expenses. Purchased Transportation was favorable \$505K, 0.7%; Other Outside Services were favorable by \$3.0M, 9.0%, which was driven by favorable variances in IT and contracted security. Energy was favorable by \$643K, 1.9%; Other Expenses were favorable by \$1.2M, 4.1%. Overall the operating expenses were favorable by \$10.2M, 3.1% and a total combined net operating favorable variance of \$12.9M, 5.0%

Mr. Meyer went over the Non-Operating Revenue totals. He mentioned federal revenue was favorable by \$427K, 0.7%, which was due to CARES allocations for 5311/5311f rural operations. FTA CARES was unfavorable by \$2M, -2.8%, and TDA was slightly favorable by \$101K, 0.1%. All together the Non-Operating Revenue was favorable \$1.0M, 0.4%. Overall the total operating and non-operating revenues and expenses were favorable by \$14.0M. Mr. Meyer mention that even with the favorable variance there is still a \$58.1M structural deficit, which is lower than the projected deficit of \$74.1M.

Mr. Meyer went over the Contingency Reserve balance, mentioning that the policy for the contingency reserve is to set the target at 12.5% of the operating expense budget. He mentioned the FY 2022 target is \$39.4M and based on the FY 2021 operating results, MTS has \$14.0M in excess revenues over expenses. He mentioned that after adjusting for interest and planned reserve activity for FY 2021 MTS is left with \$13.4M in excess revenue over expenses. Mr. Meyers' proposed allocation is to allocate \$800K to fund Board-approved front-line employee bonuses, allocate \$714K to the MTS contingency reserve to achieve the 12.5% target for FY 2022, and to allocate \$11.7M to CIP to fund the new Division 6 facility.

Action Taken

Ms. Salas moved to forward a recommendation to the MTS Board of Directors to allocate the excess revenues over expenses in FY2021 to the following:

1. \$800K to fund Board-approved front-line employee bonuses
2. \$714K to MTS contingency reserve to achieve 12.5% target for FY2022
3. \$11.7M to CIP to fund new Division Six facility

Mr. Sandke second the motion and the vote was 5 to 0 in favor

6. San Diego Transit Corporation (SDTC) Employee Retirement Plan's (Plan) Actuarial Experience Study (Alice Alsberghe of Cheiron Inc. and Larry Marinesi)

Larry Marinesi, Chief Financial Officer (CFO), explained the process of the actuarial experience study which is completed by Cheiron. He mentioning the study takes place every 5 years, taking a look at all the assumptions built within the pension plan, including mortality, investment return and inflation.

Alice Alsberghe gave an overview of the actuarial experience study, and mentioned the proposed assumptions would be used for the 2021 valuations and for subsequent valuations for the future, if assumptions were to change at a later date.

Ms. Alsberghe went over the key findings and recommendations. She mentioned the big take away from the study are the investment returns, stating that future expectations for investment returns are considerably lower than the current assumption. Ms. Alsberghe proposed reducing the current SDTC Plan assumption of 6.75% to 6.0%, which would increase the total actuarially determined contribution. The mortality experience overall was consistent with the prior assumptions from the last experience study, however future mortality improvements have decreased since the last study.

Ms. Alsberghe went over the contribution impact of individual assumption changes, which include mortality, retirement, termination, disability and administrative changes. All demographic assumption changes would reduce the contribution by \$973K. By reducing the Plan assumption to 6.0%, it increases the costs by \$2.2M to the annual actuarial determined contribution. The total estimated change in contributions results in an increase of \$1.1 million to the annual contribution. She went over the recommendation for the assumptions.

Action Taken

Ms. Moreno moved to forward a recommendation to the MTS Board of Directors to:

1. Adopt the actuarial Experience Study of the SDTC's Employee Retirement Plan
2. Approve the revised actuarial assumptions

Mr. Whitburn second the motion and the vote was 5 to 0 in favor

7. San Diego Transit Corporation (SDTC) Employee Retirement Plan Investments in Environmental, Social, and Governance (ESG) Funds (Jeremy Miller of RVK Inc. and Larry Marinesi)

Larry Marinesi, Chief Financial Officer (CFO), mentioned that the Board of Directors asked for a review the SDTC pension plan and its position as it relates to ESG. RVK conducted an analysis of the existing plan and the level of ESG within the plan.

Jeremy Miller, gave an overview of what ESG is, and mentioned that RVK has a lot of experience dealing with these issues with a variety of clients. Mr. Miller went over what is ESG Investing and how ESG is incorporated in to the investment decision-making process. Mr. Miller went over the factors that each topic covers such as Environmental – Climate Change, Natural Resources; Social – Human Capital, Product Liability; Governance – Corporate Governance, Business Ethics and Fraud.

Mr. Miller went over how RVK incorporates these factors as they look at managers and the various strategies that they would incorporate. He mentioned that most managers have already incorporated ESG factors in some way in to the investments and that there is not just one approach to looking at ESG factors. Mr. Miller went over RVK's levels of manager ESG factor inclusion, which is made up of ESG Agnostic, ESG Aware, ESG Integrated and ESG Impact. He mentioned most of the current portfolio managers fall within the ESG aware or ESG integrated.

Action Taken

Mr. Sandke moved to forward a recommendation to the MTS Board of Directors to:

1. Research quality ESG Impact firms and strategies and identify an appropriate fund to include in portfolio
2. Fully liquidate the Vanguard Energy Index in calendar year (CY) 2022 (with estimated proceeds ranging from \$2M - \$3M) and transfer proceeds to the newly acquired ESG impact fund
3. Monitor acquired ESG fund performance results for next FY and report back to MTS BDC / Board on results and impact

Ms. Moreno second the motion and the vote was 5 to 0 in favor

8. Next Meeting Date:

To Be Determined

9. Adjournment

Ms. Moreno adjourned the meeting at 3:40pm

/s/ Vivian Moreno

Chair of the Budget Development Committee

/s/ Lucia Mansour

Clerk of the Budget Development Committee

Attachment: Roll Call Sheet

BUDGET DEVELOPMENT COMMITTEE
SAN DIEGO METROPOLITAN TRANSIT SYSTEM
ROLL CALL

MEETING OF (DATE) 10/15/2021

CALL TO ORDER (TIME) 2:03pm

RECESS _____

RECONVENE _____

CLOSED SESSION _____

RECONVENE _____

ADJOURN 3:40pm

BOARD MEMBER (Alternate)	PRESENT (TIME ARRIVED)	ABSENT (TIME LEFT)
Moreno <input checked="" type="checkbox"/>	2:00pm	3:40pm
FLETCHER <input checked="" type="checkbox"/>	2:00pm	3:40pm
SALAS <input checked="" type="checkbox"/>	2:00pm	3:40pm
SANDKE <input checked="" type="checkbox"/>	2:00pm	3:40pm
Gloria <input type="checkbox"/> Whitburn <input checked="" type="checkbox"/>	2:00pm	3:40pm

SIGNED BY THE CLERK OF THE BUDGET DEVELOPMENT COMMITTEE: Lucia Mansour
Digitally signed by Lucia Mansour
DN: cn=Lucia Mansour, o=San Diego Metropolitan Transit System, ou=Finance, email=Lucia.Mansour@sdmts.com, c=US
Date: 2021.10.25 08:39:02 -0700

CONFIRMED BY OFFICE OF THE GENERAL COUNSEL: Karen Landers
Digitally signed by Karen Landers
DN: cn=Karen Landers, o=San Diego Metropolitan Transit System, ou, email=Karen.Landers@sdmts.com, c=US
Date: 2021.10.25 08:55:25 -0700